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GUEST VIEW

The role of fintech in shaping the future of capital markets

Financial technology solutions, once seen as a threat, are now being adopted by asset markets to improve their operations

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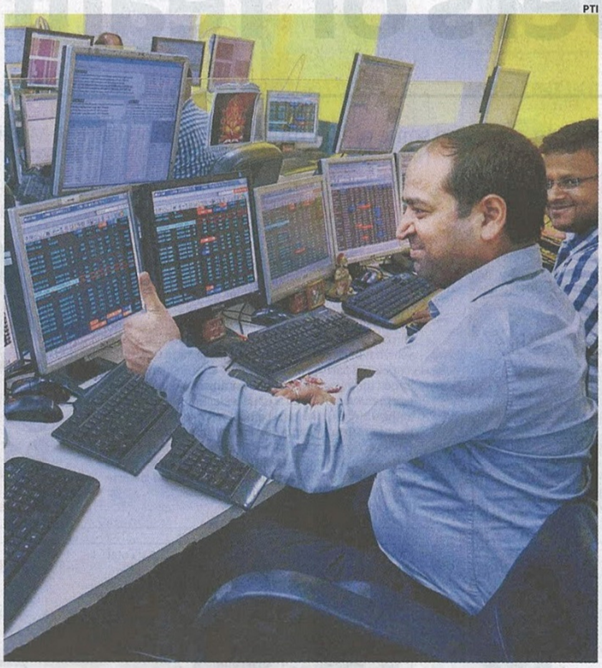

Capital markets are at an inflection point. Fintech innovations are disrupting and re-imagining their functioning like never before. This is true across primary and secondary markets, including those for equity and bonds. Access to capital is no longer limited to public platforms. Traditional forms have given way to new-age platforms such as crowdsourcing, private capital (exchanges) and social investments. If one looks at the recent fintech innovations, these have broadly been in the areas of technology (business use cases), talent (new skill sets), and transparency (speed and availability of information).

It is interesting that unlike startups, capital markets are regulated globally. They are mature and follow a well-defined structure. Hence, any overnight disruption in their business model or approach is neither possible nor advisable. However, fintech innovations in recent times have enabled an "alternate thinking" approach, which was rare so far. Be it legacy-driven tech architecture, burgeoning manpower costs, or high commission-based fee income, all of it is being challenged and changed by fintech.

Take, for instance, the collaboration between capital markets and new-age fintech players. The latter aren't considered competition anymore. Instead, they are working with market managements to implement efficiency programmes. The focus areas for fintech in capital markets are automation, data analytics and intelligence, and customer satisfaction through safe access.

Fintech-driven innovation is influencing significant parts of capital markets' value chain, from sourcing capital to data and analytics services. These can be classified into four buckets. One is pre-trade, or access to capital. In India, crowdfunding platforms and bond issuances are in growth mode. Globally, the Korea Exchange launched the Korea Startup Market in November 2016 with blockchain technology to enable equity shares of startups to be traded in the open market. Another is trade execution. Fintech has led to cost efficiencies and enhanced trading security, thus helping end-customers. The third is post-trade services. Investment in distributed ledger technologies is increasing both in India and global markets. Changing regulatory and know-your-customer (KYC) services allow participants to access KYC information in real-time. Here too, more automation has meant improved security. Fourth is life cycle management, data and analytics, and value-added services. Investments in data and analytics are helping develop new techniques to mine and interpret data to its full potential.

While fintech trends are disrupting the retail side, entry barriers to capital markets remain high. This opens up avenues for collaboration between capital market players and emerging fintech innovators to create an ecosystem that lowers structural costs, makes meeting regulatory changes easier and improves services for the consumer. A recent report by the World Federation of Exchanges concluded that fintech activity in capital markets infrastructure has outpaced other areas in financial services.

Now we look at the macro trends affecting the capital markets industry. Fast changes in evolving customer needs and internal pressures to optimize costs are impacting the technology landscape. Given the mounting challenges, disruption through technological innovation appears imminent. For instance, strategic cost reduction is changing how technology is perceived. Rising demand for third-party solutions, particularly around data management and client-focus, is resulting in fewer, larger vendors providing a wider range of services. Next, increasing demand for processing services, software and data are fuelling the use of analytics at the clients' end. Besides, consolidation is causing growth among sell-side clients.

For value addition, we see four key fintech themes. One is customer experience. Customer journey analytics is the process of tracking and analysing the way customers and prospects use a combination of available channels to interact with an organization. The customer experience will improve if data and analytics are deployed for continuous improvement in business processes. Another is network platforms. Connectivity is being monetized through direct links between parties intermediated by banks. The result is a shift in dynamics across the capital markets value chain. The third is robotic process automation (RPA). Software robots are being used to replicate tasks performed by humans, without disrupting existing processes. The use of RPA delivers cost savings, improves productivity and quality; it also optimizes analytics. The fourth is blockchain technology. Distributed ledgers promise to revolutionize the core processes in capital markets, yielding richer data sets, universal data sources and distributed records. Clearing and settlement is an important back-office process for which turnaround time can be cut from three days to a few minutes.

Finally, what are the implications for capital market players? While they are actively exploring a broad range of usage cases, their success will be driven not only by the stand-alone steps taken by each player, but also through collaboration in an ecosystem that challenges traditional methods of operation. Achieving transactional efficiency and speed combined with better customer data analytics and regulatory compliance are major challenges for today's capital market players. Moreover, recent fintech innovations are helping in back-end technology, customer-facing solutions and middle-end automation.

As fintech players grow, they will expand capital markets not only by adding efficiency, but also by creating value. Needless to add, Indian capital market players will need to adapt their models to collaborate with fintech players with the aim of generating greater value for the financial ecosystem as a whole.

These are the author's personal views